

Message Text

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ACTION EUR-12

INFO OCT-01 IO-11 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 EA-07 FRB-03 INR-07 NEA-10 NSAE-00

USIA-06 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01

OMB-01 INT-05 L-03 STR-04 FTC-01 ITC-01 SS-15 NSC-05

H-02 /118 W

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P R 041927Z MAR 76

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 0948

INFO ALL OECD CAPITALS 0043

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 06651

E.O. 11652: N/A

TAGS: ETRD, OECD

SUBJECT: ALLOY STEEL ESCAPE CLAUSE PROCEEDING: OECD
SECGEN VAN LENNEP CONCERNED THAT US RESTRICTIVE ACTION
ON IMPORTS WOULD SPELL END TO TRADE PLEDGE

1. OECD SECGEN VAN LENNEP CALLED IN AMBASSADOR TURNER
AND DCM MARCH 3 TO EXPRESS HIS CONCERN THAT US ADMINIS-
TRATION MAY WELL OPT FOR SOME KIND OF TRADE RESTRICTIONS
IN THE ALLOY STEEL SECTOR. HE THOUGHT ADMINISTRATION
MOTIVATION MIGHT BE DESIRE TO LIMIT DAMAGE WHICH COULD
OTHERWISE RESULT FROM A POSSIBLE CONGRESSIONAL OVERRIDE
OF A DECISION TO TAKE NO ACTION. VAN LENNEP BELIEVES
SUCH AN APROACH, BASED ON TRADITIONAL COMMERCIAL POLICY
REASONING, WOULD NOT BE IN KEEPING WITH BROADER POLICY
CONSIDERATIONS UNDERLYING OECD TRADE PLEDGE. IT WOULD,
IN HIS VIEW, HAVE DIRE CONSEQUENCES FOR TRADING SYSTEM
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AND MAKE IT IMPOSSIBLE TO RENEW TRADE PLEDGE AT JUNE

OECD MINISTERIAL. IN ELABORATION SEC GEN SAID IN HIS VIEW ANY US RESTRICTIONS ON ALLOY STEEL WOULD BE VIOLATION OF TRADE PLEDGE AND WOULD BE SEEN BY OTHERS AS SUCH, WITH RESULT THAT US EXAMPLE WOULD VERY LIKELY BE WIDELY EMULATED. CONSEQUENT UNRAVELING OF PLEDGE DISCIPLINE WOULD BE PARTICULARLY UNFORTUNATE WHEN WORLD JUST BEGINNING TO EMERGE FROM RECESSION, AND WOULD MAKE IT MEANINGLESS TO ATTEMPT TO RENEW PLEDGE AT MINISTERIAL. VAN LENNEP NOTED THAT STEEL SECTOR IS UNDER SERIOUS PRESSURE IN VIRTUALLY EVERY COUNTRY AND, FROM SECRETARIAT'S ANALYSIS OF STATISTICS, US PROBLEMS APPEARED TO BE DUE MUCH MORE TO LOWER DEMAND RESULTING FROM RECESSION THAN TO INCREASED IMPORTS. THUS WHILE US MIGHT TRY TO ARGUE THAT GATT ARTICLE 19 APPLIED, OTHERS WILL READ US RESTRICTION AS STEMMING FROM RECESSION, WHICH IS EXACTLY THE KIND OF ACTION THE TRADE PLEDGE IS AIMED AT AVOIDING. IN CONCLUSION HE URGED US ADMINISTRATION STAND FIRM AGAINST RESTRICTIONS, AND EMPHASIZED THE POLITICAL IMPORTANCE OF THE ADMINISTRATION BEING SEEN TO OPPOSE TRADE RESTRICTIVE ACTIONS EVEN IF IT WERE LATER OVERRULED BY CONGRESS.

2. AMBASSADOR TURNER RESPONDED BY ASSURING VAN LENNEP THAT THE US ADMINISTRATION WAS KEENLY AWARE OF THE DELICATE INTERNATIONAL ECONOMIC SITUATION AND THE OBLIGATIONS OF THE TRADE PLEDGE AND WAS TAKING THESE INTO ACCOUNT IN RESPONDING TO THE ITC RECOMMENDATION. HE ALSO NOTED THAT THE TRANSPARANCY OF US PROCEDURES UNDER THE TRADE ACT, WHICH GIVES ALL PARTIES OPPORTUNITY TO MAKE THEIR VIEWS KNOWN, ALSO INEVITABLY LEADS TO HEIGHTENED FOREIGN CONCERN OVER THE POSSIBILITY OF US ACTIONS.. TURNER POINTED OUT, HOWEVER, THAT ITC HAD FOUND INJURY AND PRESIDENT IS UNDER SERIOUS PRESSURE TO TAKE STEPS TO REMEDY IT.

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3. COMMENT: WHILE WE RECOGNIZE THE COMPLEXITIES OF THE DECISION FACING THE ADMINISTRATION, WE FEEL VAN LENNEP'S CONCERNS ARE BROADLY REPRESENTATIVE OF THOSE FELT AT OECD ABOUT POSSIBLE US RESTRICTIONS ON ALLOY STEEL. THERE IS GENERAL CONCERN ABOUT A CHAIN REACTION FOLLOWING US ACTION WHICH COULD SEVERELY TARNISH RAMBOUILLET AFFIRMATION OF PLEDGE, AND MIGHT MAKE RENEWAL OF PLEDGE IN JUNE DIFFICULT, WITH UNFORESEEN CONSEQUENCES FOR THE FUTURE OF THE WORLD TRADING SYSTEM.

4. ONE PROCEDURAL QUESTION WILL IMMEDIATELY ARISE IF US DOES ANNOUNCE RESTRICTIONS MARCH 16, NAMELY HOW TO HANDLE MATTER IN OECD, AND IT WOULD BE USEFUL TO HAVE LIMITED OFFICIAL USE

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INSTRUCTIONS ON THIS AT SAME TIME MISSION IS INFORMED OF PRESIDENT'S DECISION. WE CAN EXPECT THAT ANY US ACTION TAKEN WILL BE RAISED NEARLY IMMEDIATELY IN OECD COUNCIL, WITH PROPOSAL FOR AD HOC WORKING PARTY TO EXAMINE MEASURES. WHILE US MIGHT ARGUE THAT MEASURES WERE LIMITED AND CLEARLY NOT BALANCE OF PAYMENTS ORIENTED, SO THAT TRADE COMMITTEE WOULD BE MORE APPROPRIATE FORUM, IMPORTANCE OF STEEL SECTOR WORLD-WIDE AND FACT THAT ONE ROUND OF CONSULTATIONS ON THIS SECTOR HAS ALREADY TAKEN PLACE UNDER COUNCIL AUSPICES WILL MAKE IT DIFFICULT TO INSIST ON ANYTHING LESS THAN A COUNCIL WORKING PARTY. WE MAY ALSO EXPECT

DESIRE ON PART OF THOSE AFFECTED TO SEE CONSULTATIONS
TAKE PLACE AT EARLIEST POSSIBLE DATE. WE WOULD JUDGE,
BOTH FROM LINE TAKEN BY SECRETARIAT AND REPRESENTATIONS
MADE BY OTHER COUNTRIES, THAT AT SUCH CONSULTATIONS US
WILL NEED TO BE PREPARED TO MAKE SOLID DEFENSE OF ITS
VIEW OF RELATIONSHIP BETWEEN RECESSION, IMPORTS, AND
INJURY TO US ALLOY STEEL INDUSTRY. PRESUMABLY US WOULD
ALSO WANT TO HAVE SOME IDEA OF WHAT END PRODUCT OF
CONSULTATIONS WOULD BE, WHICH MIGHT MAKE PRELIMINARY
BILATERAL DISCUSSIONS DESIRABLE.
TURNER

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